

## Trust Fund for the People of the Federated States of Micronesia

### **Annual Report Fiscal Year 2008**

This report covers the Fiscal Year that began October 1, 2007 and ended September 30, 2008.

#### **Performance of Trust Fund's Assets in Fiscal Year (FY) 2008:**

The market value of the Trust Fund's net assets stood at \$119,105,445 as of September 30, 2008. The United States contribution of \$18,995,680 was made on October 4, 2007. There was a net investment loss (including investment fees) of \$22,896,562 and administrative expenses were \$97,494. The net return on assets as calculated by Mercer Investment Advisers was a negative 15.9 percent.

The following accounted for the change during FY 2008: (Source: Bookminders)

|                                     |                       |
|-------------------------------------|-----------------------|
| <u>U.S. Contribution:</u>           | <u>\$18,995,680</u>   |
| <u>Investment Income (Loss);</u>    | <u>(\$22,896,562)</u> |
| Interest and Dividends:             | 4,360,115             |
| Realized Gain (Loss):               | 2,586,114             |
| Unrealized Gain (Loss)              | (29,480,384)          |
| Investment Fees: (Expense)          | (361,549)             |
| Change in Currency Value            | (858)                 |
| <u>Administrative Expense:</u>      | <u>\$97,494</u>       |
| Legal Expenses:                     | 4,457                 |
| Audit Expenses:                     | 15,260                |
| Accounting Fees:                    | 3,484                 |
| Executive Administrator Fees:       | 70,650                |
| Trustee Fees:                       | 3,642                 |
| <u>Miscellaneous Other Receipts</u> | <u>302</u>            |
| <u>Net Income:</u>                  | <u>(3,998,678)</u>    |

**Fees:**

The Trust Fund’s total fee expenditures in FY 2008 were \$917,010, plus 36,066 euros, valued at \$54,290 as of the dates paid. Fees included Money Manager fees, which are included under “Unrealized Gain (Loss)”, above, fees for the Executive Administrator, beginning at the start of FY 2008, and accounting fees to Bookminders, beginning in May 2008. The total of \$971,300 represented about 0.82 percent of the Trust Fund’s end-year assets of \$119,105,445.

**Organization:**

Pursuant to the provisions of the Compact of Free Association and its subsidiary Trust Fund Agreement, the Trust Fund for the People of the Federated States of Micronesia (FSM) was incorporated in Washington, D.C., on August 17, 2004. The Trust Fund Agreement established the organization and structure of the Trust Fund, including a Joint Trust Fund Committee (TFC), which exercises all the powers of the Trust Fund.

The Trust Fund Agreement provides for the TFC to be composed of three members who represent the United States, and two members who represent the FSM. Members of the Trust Fund Committee as of September 30, 2007, were the following:

|                           |               |
|---------------------------|---------------|
| Nikolao Pula, Chairman    | United States |
| Alcy Frelick              | United States |
| William R. Steiger, Ph.D. | United States |
| Evelyn Adolph             | FSM           |
| Fabian Nimea              | FSM           |

**Contributions:**

The following contributions have been made to the Fund’s A Account:

| <u>Contributor</u>                                   | <u>Dates</u>    | <u>Amount</u>        |
|--|-----------------|----------------------|
| FSM Contribution                                     | October 1, 2004 | \$30,258,383         |
| U.S. Contributions                                   | through FY 2007 | \$66,318,299         |
| U.S. Contribution                                    | October 2007    | \$18,995,680         |
| <u>Total Contributions through Fiscal Year 2008:</u> |                 | <u>\$115,572,362</u> |

**Implementation of the Asset Allocation Plan:**

During FY 2008, the TFC completed Step Three of the approved Mercer Investment Allocation Plan. Step Four, the Final Allocation, was begun on August 25, 2008, when a TFC subcommittee met and selected Fidelity Investments/Pyramis as International Small Cap Manager and Atlanta Capital Management as Small/Mid Cap Manager and Blackstone as Hedge Fund Manager. The TFC subsequently approved these selections and funded Pyramis with \$5 million and Atlanta with \$8 million following the close of the Fiscal Year. At the recommendation of Mercer, funding of the Blackstone Hedge Fund was postponed due to instability in the markets.